Equity Research

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BSE Sensex: 59307

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Q2FY23 result review, TP and earnings change

Financials

Target price: Rs368

Earnings revision

(%)	FY23E	FY24E
PAT	↑ 5	↑ 2

Target price revision

Rs368 from Rs335

Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	61.5	61.5	61.5
Institutional investors	12.8	13.1	12.6
MFs and other	4.8	4.4	4.6
FIs/Banks	1.4	1.3	0.5
Insurance co.	0.0	0.0	0.0
FIIs	6.6	7.4	7.5
Others	25.7	25.4	25.9

ESG disclosure score

Year	2020	2021	Chg
ESG score	34	34	-
Environment	1	1	-
Social	21	21	-
Governance	79	79	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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INDIA

Poonawalla Fincorp

BUY
Maintained

In a high-growth phase; recoveries to cushion credit cost trajectory

Rs316

Poonawalla Fincorp (PFL) delivered on its stated strategy in Q2FY23 registering an RoA of 3.6%, organic disbursement growth of 32.4% QoQ, focused AUM growth of 10.6% QoQ, net stage-3 at 0.83%, and credit cost reversals. What surprised positively was that, despite the alignment with revised NPA norms, consolidated stage-3 plunged 67bps QoQ to 1.52% due to write-offs of Rs4.6bn (including legacy pool + policy-led write-offs). Recoveries from earlier written-off pool aided write-back in provisioning of Rs411mn. We expect aggressive write-offs (cumulative pool of Rs10.5bn) followed by consistent recovery efforts (estimate 40-45% recovery run-rate over 12-18 months) to cushion credit cost till FY24E.

Besides, strategic execution is propelling PFL into the growth phase as reflected in: 1) new products steadily scaling up; 2) monthly organic disbursement run-rate of Rs12bn-13bn; and 3) investment in people, technology, scale-up and rollout of new products leading to higher 'opex to AUM' at 5.9%.

Company is gaining traction in its recently-launched product segment, Direct, Digital & Partnership (DDP) led distribution, launch of new products, and is focused on cross-sell/upsell. The performance in Q2FY23 further enhances visibility on AUM growth of 32% for FY23E/FY24E, NIMs being sustained upwards of 9% and credit cost being contained at 0.5-0.8%. Sharp business execution, improved market positioning in focused product segments, business scale-up through diversified and granular portfolio mix, and consistent earnings delivery are likely to trigger rerating. Also, the proposed preferential issue in Poonawalla Housing Finance up to Rs10bn for <15% dilution will likely discover the value of its pan-India, superior credit-rated (AAA) affordable housing franchise. With confidence further reaffirmed on its portfolio attuned for growth and >3% RoA profile, the stock can command a valuation of 3.8x FY24E consolidated book. We revise our target price to Rs368 (earlier: Rs335 at 3.5x book). Maintain BUY.

- **Poonawalla Fincorp (PFL) reported PAT of Rs1.63bn (up 15.8% QoQ / 70.8% YoY), exceeding our expectations, thereby registering 3.6% RoA in Q2FY23.** Improved NIMs (up 35bps QoQ and 77bps YoY to 9.8%) and focused AUM growth of 10.6% QoQ / 56.1% YoY supported operating performance during the quarter. This was partially offset by 14.1% QoQ / 51.8% YoY rise in opex (5.9% of AUM). Earnings beat was primarily buoyed by provisioning reversal of Rs414mn.

Market Cap	Rs242bn/US$2.9bn
Bloomberg	POONWAL IN
Shares Outstanding (mn)	765.1
52-week Range (Rs)	334/148
Free Float (%)	38.5
FII (%)	7.5
Daily Volume (US$/'000)	16,365
Absolute Return 3m (%)	17.2
Absolute Return 12m (%)	108.6
Sensex Return 3m (%)	6.7
Sensex Return 12m (%)	(1.4)

Year to March	FY21	FY22	FY23E	FY24E
NII (Rs mn)	10,652	11,943	14,771	19,056
Net Profit (Rs mn)	(5,590)	3,751	6,098	7,674
EPS (Rs)	(20.7)	4.9	8.0	10.0
% Chg YoY	NM	NM	62.6	25.8
P/E (x)	(15.2)	64.4	39.6	31.5
P/BV (x)	3.9	4.0	3.6	3.3
Net NPA (%)	1.2	1.1	0.6	0.6
Dividend Yield (%)	-	-	0.1	0.1
RoA (%)	(3.9)	2.5	3.2	3.0
RoE (%)	(22.6)	9.1	9.6	10.9

- **Focused AUM growth of 10.6% QoQ / 56.1% YoY; diversified disbursement engine with focus on cross-sell/upsell:** Consolidated disbursement gained further traction growing 44% YoY / 8% QoQ to Rs37.2bn recording highest-ever quarterly disbursements in Q2 of any year and also highest monthly disbursements of Rs12.9bn in Sep'22. This creates a strong growth trajectory for H2FY23. In H1FY23 itself, disbursements settled higher at Rs71.5bn *vs* cumulative disbursement of Rs94.9bn for FY22. Organic disbursements accounted for 97% of total consolidated disbursement compared to 80% in Q1FY23. On a standalone basis, 100% disbursements were organic and up 31% QoQ at Rs31.1bn.

  Execution of strategic business model transitioning is validated by consistently improving quarterly organic disbursement run-rate (Rs3.38nbn / Rs12.95bn / Rs15.43bn / Rs 21.64bn / Rs27.38bn / Rs36.25bn in Q1FY22 / Q2FY22 / Q3FY22 / Q4FY22 / Q1FY23 / Q2FY23). As a result, focused AUM growth was robust at 56.1% YoY / 10.6% QoQ. This, despite sharp reduction in the discontinued loanbook to Rs15.45bn (*vs* Rs22.8bn in Q1FY23) supported overall AUM growth of 5.1% QoQ / 21.5% YoY to Rs185.6bn in Q2FY23.

  Company expects the growth momentum to continue in coming quarters supported by change in the product mix and the increased contribution from the distribution pillars of Direct, Digital and Partnerships (DDP). The share of DDP disbursements was ~47% in Q2FY23 *vs* 34% in Q1FY23 and 17.5% in Q4FY22.

  PFL is a preferred partner for digital aggregators, fintechs and other ecosystem players as 100% digital onboarding of channel partners is initiated with <1-day TAT and also because it follows system-based payouts. For loan applications too, PFL has an online platform.

  Increasing product offering and leveraging advanced data analytics are expected to further aid cross-sell/upsell.

  Scale and launch of newer products will likely boost growth FY23E onwards. We are building-in AUM growth of 29%/ 35% over FY23E / FY24E respectively.

- **Despite the alignment with revised NPA norms, stage-3 plunged aided by write-offs:** Despite the alignment with revised NPA norms, consolidated stage-3 plunged 67bps QoQ to 1.52% (from 2.19% / 2.66%% / 3.5% / 4.1% in Q1FY23 / Q4FY22 / Q3FY22 /Q2FY22) for the consolidated entity. This was aided by write-offs of Rs3.63bn towards legacy book and Rs1bn towards policy led write-offs. Qualitative factors sustaining asset quality metrics include high CIBIL scored customers, superior collection infra, close monitoring of EWS, etc. Aggressive write-offs followed by consistent recovery efforts resulted in recoveries of Rs750mn from the written-off pool. To this extent, the quarter witnessed provisioning write-backs of Rs411mn.

  Restructured book moderated to Rs4.67bn – 2.5% of AUM (*vs* Rs6.19bn / Rs7.86bn or 3.5% / 5.7% in Q1FY23 / Q4FY22). 45% of the restructured book was in 0 dpd bucket at Rs2.11bn.

  Company now carries coverage of 0.8% (*vs* 1.9%/1.4%) on stage-1, 10.8% (23.8% / 15.1%) on stage-2, and 45.7% (57% / 59%) on stage-3 assets. ECL provisions of 2.2% (4.6% / 4.2% / 4.9% / 5.4% in Q1FY23 / Q4 / Q3 / Q2FY22) of

AUM seem adequate for the existing stress pool (1.52% stage-3 + 2.5% restructured).

Recovery from cumulative write-offs of Rs10.5bn over next 12-18 months is expected to cushion credit cost. We believe the comfortable buffer will call for lower incremental credit cost of <60bps in FY24E as well.

- **NIMs improved further:** Funding cost in the rising interest rate environment inched up 20bps QoQ to 7.12%. This was offset by portfolio mix in favour of high-yielding retail assets and recoveries from the legacy book. NIMs thereby expanded 35bps QoQ to 9.9%. Company raised Rs12.25bn via CPs and NCDs in Q2FY23 and has further room to improve the mix in favour of these instruments. It is also adding multiple new relationships and moving away from consortium to multiple banking arrangement. With hike in benchmark rates, while borrowing rate will inch up further 20-40bps, company is following a pass-through in lending rates as well (reflected in rise in median disbursement IRR). Complete run-down of low-yielding legacy assets (with IRR of 9%) is likely to further aid yield improvement.
- **In an investment and retail asset roll-out mode; 'opex to assets' remain elevated:** Investment in franchise, roll-out of retail products and gained traction in disbursements led by 14.2% QoQ / 51.8% YoY rise in opex. Opex-to-AUM thereby was elevated at 5.9%. Element of ESOP-related notional charges is driving employee cost higher by >40% in H1FY23 over H1FY22. It is expected to continue hitting the P&L for a couple of more quarters at Rs400mn quarterly run-rate, post which ESOP-related notional charges will likely subside to an average of Rs150mn per quarter in FY24E and then further lower in FY25E at Rs50mn-60mn. Management has guided for 1.0%-1.5% reduction in 'opex to AUM' in FY24 and with operating leverage effectively playing out, it should settle at 3.0-3.5% on a steady-state basis.
- **Poonawalla Housing Finance (PHFL) – RoA at 2.4%; AUM grew 6% QoQ and 31% YoY:** PHFL has registered disbursement growth of 14% QoQ and 57% YoY to Rs 6.1bn though it was lower than the Rs 8.0bn in Q4FY22. This supported AUM growth of 6% QoQ and 31% YoY to >Rs56.1bn. 72% (74% QoQ) of loans were sourced directly in Q2FY23 and the company has operations in 128 branches as of Sep'22. PAT grew 8% QoQ and 75% YoY to Rs300mn, thereby registering 2.4% RoA. Management expects PHFL's AUM to grow at a CAGR of 25% to >Rs100bn by FY25.

  PHFL's long-term credit rating was upgraded to 'AAA/Stable' by CARE during the quarter. Board has accorded an in-principle approval to raise funds in PHFL on preferential basis for value unlocking and future growth. It has appointed an investment banker and expects to conclude the transaction by end of this fiscal.

Table 1: Quarterly profit and loss

(Rs mn)

	Q2FY22	Q1FY23	Q2FY23	QoQ (%)	YoY (%)
Interest Income	4,830	5,179	5,688	9.8	17.8
Interest Expense	1,765	1,734	2,090	20.6	18.4
Net Interest Income (NII)	**3,065**	**3,446**	**3,598**	**4.4**	**17.4**
Other Income	296	610	861	41.1	190.6
Total Income	**3,361**	**4,056**	**4,459**	**9.9**	**32.7**
Employee Expenses	1,226	1,619	1,807	11.6	47.4
Other Operating Expenses (incl. depreciation)	559	748	888	18.8	59.0
Total Operating Expenses	**1,784**	**2,367**	**2,695**	**13.9**	**51.0**
Pre-Provisioning Operating Profit (PPoP)	**1,577**	**1,689**	**1,764**	**4.4**	**11.9**
Provisions and write offs	340	-140	-414	196.6	-221.9
Profit Before Tax	**1,265**	**1,828**	**2,178**	**19.1**	**72.2**
Tax Expenses	309	417	547	31.1	76.6
Tax Rate	*24.5*	*22.8*	*25.1*	10.1	2.5
Minority	0	2	3	-	-
Profit / (Loss) - after minority	**955**	**1,409**	**1,628**	**15.6**	**70.5**
EPS (Rs)	**1.2**	**1.8**	**2.1**	**15.6**	**70.7**

Source: Company data, I-Sec research

Table 2: Key performance indicators

(Rs mn)

	Q2FY22	Q1FY23	Q2FY23	QoQ (%)	YoY (%)
Loan AUM	**1,52,750**	**1,76,600**	**1,85,500**	**5.0**	**21.4**
Loan disbursements	**25,800**	**34,360**	**37,210**	**8.3**	**44.2**
Yields on AUM (calculated) (%)	13.0	12.1	12.6	47 bps	-44 bps
Cost of borrowings (calculated) (%)	8.5	6.8	7.3	52 bps	-120 bps
NIM (calculated) (%)	**9.1**	**9.5**	**9.9**	**37 bps**	**80 bps**
Gross NPA - on-book AUM (%)	**4.1**	**2.2**	**1.5**	**-67 bps**	**-258 bps**
Net NPA - on-book AUM (%)	2.0	1.0	0.8	-13 bps	-118 bps
Provision coverage ratio (%)	52.0	56.9	45.8	-1111 bps	-617 bps
Cost to Income (%)	53.1	58.4	60.4	208 bps	735 bps
RoA (%) - annualised (reported)	**2.6**	**3.3**	**3.6**	**22 bps**	**94 bps**
RoE (%) - annualised (reported)	**6.6**	**18.6**	**20.3**	**171 bps**	**1371 bps**
CRAR (%)	**52.2**	**0.0**	**0.0**	**0 bps**	**-5220 bps**
-Tier 1 (%)	0.0	0.0	0.0	0 bps	0 bps
-Tier 2 (%)	52.2	0.0	0.0	0 bps	-5220 bps
Branches	297	297	297	0 nos.	0 nos.

Source: Company data, I-Sec research

Table 3: Quarterly du-pont analysis (annualised, on average loan AUM)

	Q2FY22	Q1FY23	Q2FY23	QoQ (%)	YoY (%)
Average AUM (Rs mn)	**1,48,495**	**1,71,195**	**1,81,050**	**5.8**	**21.9**
Interest earned	13.0	12.1	12.6	47 bps	-44 bps
Interest expended	4.8	4.1	4.6	57 bps	-14 bps
Gross Interest Spread	**8.3**	**8.1**	**7.9**	**-10 bps**	**-31 bps**
Credit cost	0.9	-0.3	-0.9	-59 bps	-183 bps
Net Interest Spread	**7.3**	**8.4**	**8.9**	**49 bps**	**152 bps**
Operating cost	4.8	5.5	6.0	42 bps	115 bps
Lending spread	**2.5**	**2.8**	**2.9**	**6 bps**	**38 bps**
Non-interest income	0.9	1.4	1.9	48 bps	103 bps
Operating spread	**3.4**	**4.3**	**4.8**	**54 bps**	**141 bps**
Tax	0.8	1.0	1.2	23 bps	37 bps
ROAAUM	**2.6**	**3.3**	**3.6**	**31 bps**	**103 bps**
Effective leverage (AAUM/ AE)	2.6	2.8	2.9	8 bps	30 bps
RoAE	**6.6**	**9.2**	**10.3**	**114 bps**	**374 bps**

Source: Company data, I-Sec research

Table 4: Endeavour is to contain gross stage-3 below 2% and credit cost at <1%

	PFL			PHFL			Consol		
	Sep-21	Jun-22	Sep-22	Sep-21	Jun-22	Sep-22	Sep-21	Jun-22	Sep-22
Stage 1 Assets (%)	80.9%	90.8%	93.6%	86.0%	90.8%	96.1%	82.1%	91.1%	94.3%
Stage 2 Assets (%)	14.3%	6.6%	4.7%	12.1%	8.3%	3.0%	13.8%	6.7%	4.2%
Stage 1 PCR (%)	1.5%	2.5%	0.9%	0.3%	0.3%	0.5%	1.2%	1.8%	0.8%
Stage 2 PCR (%)	17.2%	28.7%	10.4%	13.9%	12.8%	12.3%	16.5%	23.8%	10.8%
Stage 1 & 2 PCR (%)	**3.9%**	**4.3%**	**1.3%**	**2.0%**	**1.4%**	**0.8%**	**3.4%**	**3.4%**	**1.2%**
Gross Stage 3 (Rs mn)	5,090	3,270	2,240	640	410	400	5,730	3,670	2,640
Net Stage 3 (Rs mn)	2,340	1,340	1,180	400	260	250	2,750	1,580	1,430
Gross Stage 3 (%)	4.8%	2.7%	1.8%	1.9%	1.0%	0.8%	4.1%	2.2%	1.5%
Net Stage 3 (%)	2.3%	1.1%	0.9%	1.2%	0.6%	0.5%	2.0%	1.0%	0.8%
Stage 3 PCR (%)	**54.0%**	**59.2%**	**47.3%**	**37.1%**	**37.4%**	**36.7%**	**52.1%**	**57.0%**	**45.7%**

Source: Company data, I-Sec research

Q2FY23 earnings conference call takeaways

Opening remarks

- The performance during the quarter with respect to growth in focused businesses, contained asset quality and improved profitability is testimony to execution of stated strategy and strong leadership team.
- It achieved highest ever quarterly disbursement of Rs37.2bn with diversified disbursement engine and new products scaling up well. There was a consistent increase in organic disbursement (up 180% YoY & 32.4% QoQ).
- Focused AUM grew by 56.1% YoY & 10.6% QoQ.
- DDP contribution in total organic disbursements increased to 47% in Q2FY23 thereby lowering customer acquisition cost.
- Post the alignment with revised NPA definition as per RBI circular, GNPA & NNPA reduced to 1.52% and 0.83% respectively.
- NIMs improved 35bps QoQ and 77bps YoY to 9.8%.
- It delivered 3.6% RoA

What to expect going forward

- Strong business momentum for upcoming quarters
- ***Looking at 30-35% YoY growth and 6-8% QoQ growth to achieve 3x growth from March 2021 to March 2025***
- Consumer and MSME continue to grow
- Full scale operationalisation of digital center
- No actual P&L charge expected in FY23 and credit cost will be in the range of 0.5% in FY24E. Post that, steady state basis credit cost will be 0.5-0.8%. With stringent write-off policy, it needs to underwriting well to see that credit cost are contained as targeted.
- Can expect 1%-1.5% reduction in opex to AUM in FY24. 3-3.5% steady state opex to AUM can be expected after 2 years

AUM

- AUM at Rs185.6bn, up by 22% YoY and 5% QoQ
- Disbursements up Rs37.2bn, up 44% YoY and 8% QoQ. Entire disbursements in PFL during the quarter were via organic route
- Expect strong business momentum in H2
- AUM mix across focussed business:
    - Rs23bn pre-owned cars
    - Rs 2.86bn auto lease
    - Rs 51.35bn unsecured PL/BL/loans to professionals/digital loans
    - Rs 26.09bn (other products acquired last year - DA book)
    - Rs 12.41bn LAP

    - Rs 15.45bn existing legacy book
    - Rs 49.27 housing and Rs 6.86bn PHFL acquired DA
    - Rs 185.6bn Total
- Monthly disbursements
    - Rs 1.8-1.85bn pre-owned cars
    - Rs 0.3bn auto lease
    - Rs 3bn business loans
    - Rs 2.5bn including digital on personal
    - Rs 1.3bn LAP
    - Rs 2bn housing
- LAP done only via 30 locations and all other loan products at 100-110 branches
- 72% of AUM is secured and 28% is unsecured as of Q2FY23
- More than 80% customers are 730+ CIBIL
- 465k customers acquired during the quarter
- *Due to legacy book write-off and run-down of legacy book, overall AUM growth is looking lower.*
- Have capacity to disburse Rs 30bn but currently disbursing Rs13bn per month. So huge scope to improve productivity levels with vintage.
- Only NBFC who is offering zero prepayment charges as per customer feedback

Legacy and defocussed book

- Legacy portfolio is down QoQ from Rs22.8bn to Rs15.45bn – of the reduction, Rs 2.3bn legacy book (agri, tractor, CV) was sold to private bank, Rs3.64bn was written-off and balance was recovered.
- Net gain on derecognition is Rs 330mn (non-recurring) on account of recovery from legacy book
- Recovery from w/off book for the quarter at Rs 750mn (Rs 410mn accounted towards credit cost and Rs 330mn accounted towards gain on derecognition)
- ***Want to take to legacy book at Rs 5bn by March 2023 and take it to nil by June 2023***
- Entire management overlay is towards legacy book and nothing will be utilised on new book.
- By March 2023, management overlay or legacy book would be less than Rs5bn (carrying Rs10bn as of now)
- Not expecting any losses from w/off book but can expect provision write back to the tune of Rs 1.5-2.0bn in the next 18 months
- Management overlay would be nil once entire legacy book is written off

DSA payout

- In personal loans and professional loans, there are no DSA now which is now completely direct and digital. Hence, company now saves 3-4% on these loans of DSA payout. DSA based sourcing stopped from the past 4-5 months.
- In business loans, LAP and pre-owned loans, company does have DSA
- DSA payout
    - Business loans - 2.5-3.5% (IRR is 19% and upfront processing fees of 2% and additional cross sell income)
    - Pre owed cars at 2.5-3.5% (IRR of 15.7%)
    - 1.0-1.25% for LAP
- Direct Digital Program (DDP) mix increased to 47% in Q2FY23 from 34% in Q1FY23 and 17.5% in Q4FY22
- On DDP, customer acquisition cost is less than 1% and for the rest, customer acquisition cost would be on an average at 1.5%-2.0%
- Company is looking to cross 30-40% of existing database in terms of cross-sell. It will also looking to launch EMI cards, credit cards in the next 3-4 quarters.

Asset quality

- Lowest GNPA and NNPA in the past 38 quarters aided by chosen customers segment, superior collection infra, close monitoring of EWS etc.
- Confident of having best asset quality among peers in NBFC space
- No w/off in newly acquired book
- Restructuring pool is also primarily from legacy book - Rs 2.11bn is zero dpd and on pending book, company is getting EMIs. Rest which was not performing has been written off and it is largely from legacy book.

Credit cost

- ***Credit cost can be considered in the range of 50-80bps on normalised basis in FY24E/FY25E***
- Can expect credit cost write-back in the next 12-18 months
- Write off policy - unsecured at 90+ dpd and secured at 180+ dpd
- Total write-offs during Q2FY23 include Rs 3.63bn towards legacy book and Rs1bn towards policy w/off. No additional write-off on legacy book expected going forward except for policy write-offs on new book.
- Cumulative write-off book is Rs10.5bn and it expects 40-45% to be recovered over next 12-18 months.
- Carrying Rs23bn of legacy book including w/off

ESOPs and overall opex

- ***ESOP notional charge to P&L: Rs 1.6bn in FY23 (rs400-450mn run-rate per quarter in H1). This will reduce to Rs550-600mn in FY24 and Rs 200mn-300mn charge in FY25***
- ESOPs given to more than 400 people which covers ~35% of manager and above level
- 15% of total employee base covered by ESOPs which is highest in industry

Yields, cost and margins

- Already among the lowest in cost of funds among NBFCs. There is scope to borrow via CP and debt market.
- 7.12% cost of funds and 20-40bps hike can be expected in Q3 depending on rate hike by RBI.
- Will start increasing lending rates in the next 2-3 months
- Received 7-year money from PSU banks at attractive rates
- CARE upgraded the long-term rating to 'AAA/Stable' which should aid borrowing cost
- Liquidity buffer stood at Rs48bn as of 30th Sep 2022
- Interest reversal for the quarter at Rs 50mn.
- IRR
    - Business loans - 18.5%
    - Pre-owned cars - 15.5%
    - Loans to professionals and unsecured personal loans - 13.5%
- Rs 14bn legacy book is at 9.5%, which will run-down in the next 11-12 months

Employees

- ~3.2k employees are on-roll employees and ~2k are off-roll. More than 50% employees are on the collection side. It has done rescaling and retraining where some have moved to sales.
- In Magma book, 50-60% collection is in cash and hence need high employee base towards collections.

Q1FY23 earnings conference call takeaways

MD & CEO Opening remarks

- ***Fantastic quarter where strategy is translated into execution.*** Execution excellence was reflected is the fact that Q1FY23 was better than Q4FY22 when Q1 is otherwise seasonally weak.
- ***Validation of business model reflected in consistent rise in organic disbursements.***
- It reported PAT of Rs1.41bn (up 18.5% QoQ/118% YoY), thereby registering 3.4% RoA in Q1FY23 (up 155bps YoY/29bps QoQ).
- ***Created management overlay of Rs2.24bn on legacy book against one-time gain on sale of Magma HDI shares. On legacy book of Rs20bn it was carrying provision of 9.6% which has now gone up to 20%. Hence, there will be no further provisioning requirement.***
- Digital capabilities a source of competitive edge – focus on culture of digital first across the organisation.
- ***Launched machinery loan & supply chain finance in Q1FY23***
- Preferred partner for digital aggregators, FinTech & other ecosystem partners

What to look forward into FY23

- Consumer and SME segment has seen revival in sentiments and demand. Given its focus on consumer & SME with pan-India retail franchise it seems it is at right place, at right time with right aspiration
- ***Depending on the opportunity and data analytics, will see if focus needed on any locations. Else currently with digital journey and collection team, it is present in more than 50 locations.***
- ***Monthly organic disbursements run-rate of Rs10bn and will do Rs120bn of organic disbursements in FY23. This will support more than Rs50bn of AUM growth in FY23***
- 264bps reduction in cost of borrowing. Will see rise in borrowing in coming quarters but Q4FY23 borrowing cost will still be lower than Q4FY22
- ***It is passing on any rising rate into the lending rates reflected in rise in median disbursement IRR and NIMs should be sustained.***
- ***Expects gross stage-3 to be less than 2% and net stage-3 will continue to be less than 1%. Steady state credit cost should remain less than 1%.***
- ***RoA will settle at 3.0-3.5% in FY23 and on a steady state, it will be in the range of 3.5-4.0%.***

Consolidate, Grow, Lead strategy

- In first six months of acquisition, consolidation phase is over and is now on a growth path.
- ***Want to be in top 1 in consumer and SME finance.***
- Leadership board position in POC and LTP on monthly disbursement basis and in ***consumer loans, business loans – will be in a leadership position***
- More than 6k CAs – personal loan also doing lot of cross-selling
- Way ahead there will be an exclusive team focused on cross-sell and digital lending.

Focused AUM grew 13% QoQ; focus on cross-sell/up-sell

- Disbursements during Q1FY23 stood at Rs34.3bn (up 98% YoY/2.8% QoQ).
- ***Quarterly Organic disbursement run-rate has been consistently improving Rs3.38nbn/Rs12.95bn / Rs15.43bn / Rs 21.64bn / Rs27.38bn in Q1/Q2/Q3/Q4FY22/Q1FY23.***

- Focused AUM growth was robust at 66.1% YoY / 13.0% QoQ; overall AUM grew 22.4% YoY / 6.5% QoQ
- ***DDP contribution increased ~2x QoQ to 34.1% of the total Q1FY23 disbursement*** (growing 147% QoQ growth in Q1FY23)
- ***Disbursement through new partners for Digital BL, Digital PL and Digital LAP initiated during the quarter.***
- ***Current portfolio mix: 76% secured and 24% unsecured. Over a period the mix would be 60:40.***

Product-wise traction in disbursements

- ***Preowned cars*****:** It achieved highest ever quarterly disbursement in Q1FY23 with 22.0% QoQ growth. Disbursement via partnership contributed 20.2% in Q1FY23 (vs 17.4% in Q4FY22 & 7.3% in Q3FY22)
- ***Digital BL | Digital PL | Digital LTP:*** QoQ disbursement grew 63.1% in Q1 vs 32.4% in Q4FY22 & 15.8% in Q3FY22, Leadership board position in LTP, 100% digital journey capability
- ***Digital LAP: Disbursements up 32.5% QoQ and focus on end to end digital platform***
- ***Affordable housing/LAP:*** Disbursements more than doubled, launched 'MSME' focused secured product up to ticket size of Rs1.5mn

Stage-3 improves 47bps QoQ to 2.19%

- ***Stage-3 further declined 47ps QoQ to 2.19% (from 2.66%% in Q4) for the consolidated entity.***
- ***Restructured book moderated to Rs6.2bn – 3.5% of AUM (vs Rs7.86bn and 5.7% QoQ) and it carries provision of 23.7% (19.6% QoQ) on this pool.***
- ***Write-off has been Rs1.05bn in Q1FY23 – it has been from the legacy book (majority from asset backed financing, pre-owned car and some SME financing in earlier organisation).***
- Provisioning existing as of now puts it in a good stead and there can be expectations of recovery and write-backs.
- ***Defocused book is Rs22.81bn of which >50% is in 0dpd bucket and balance piece is sufficient covered through provisioning.***

NIMs sustained at 9.5%; partially offset by elevated opex to AUM at 5.6%

- Funding cost benefit of 49bps QoQ (264bps YoY) in Q1FY23 that sustained NIMs at 9.5%
- ***Initiated capital market journey in Jul 22– Raised Rs4.5bn of CPs and Rs2.5bn of maiden NCD***

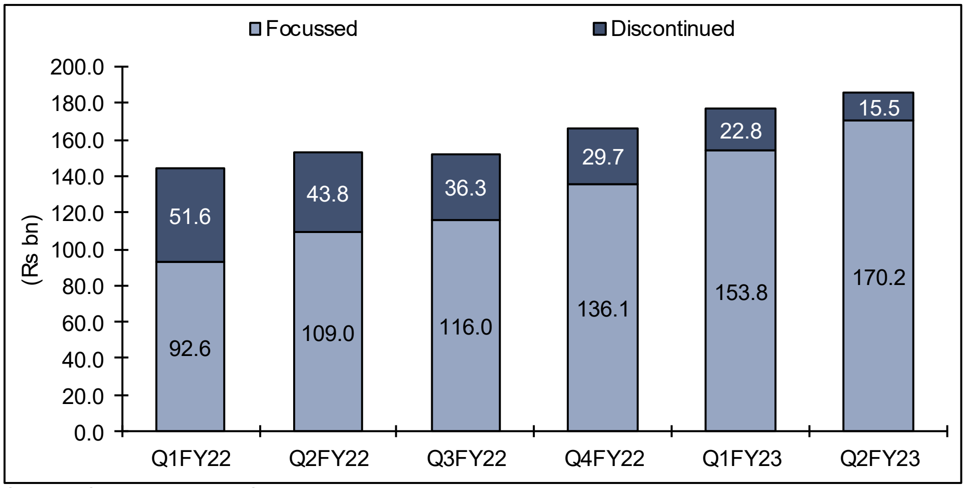
Poonawalla Housing Finance (PHFL)

- ***PHFL has registered disbursement growth of 116% YoY that supported AUM growth of 4.4% QoQ / 30.5% YoY to >Rs52.8bn.***
- NIMs improved 4bps QoQ / 186bps YoY to 7% primarily led by 33bps decline in funding cost.
- ***Stage-3 for housing finance further improved to 0.87% (vs 0.96% in FY22).***
- Board has accorded an in-principle approval to raise funds in PHFL on preferential basis for value unlocking and future growth
- Raise not exceeding Rs10bn with stake dilution of less than 15% in one or more tranches by way of preferential issue during FY23.
- It has just appointed investment banker and transactions will be completed before end of this fiscal.

Incremental datapoints

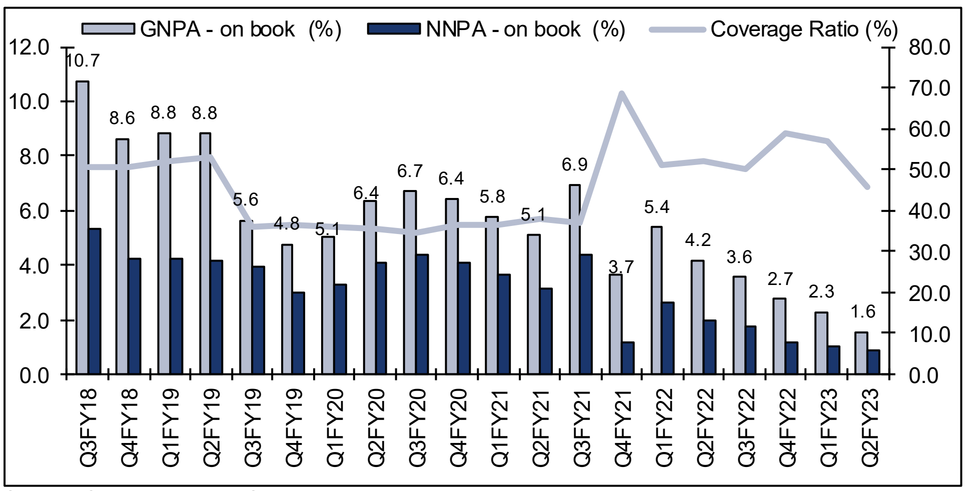
- As of Q1FY23, networth stood at Rs62.35bn and borrowings at Rs108bn

Chart 1: Focused AUM growth of 11% QoQ



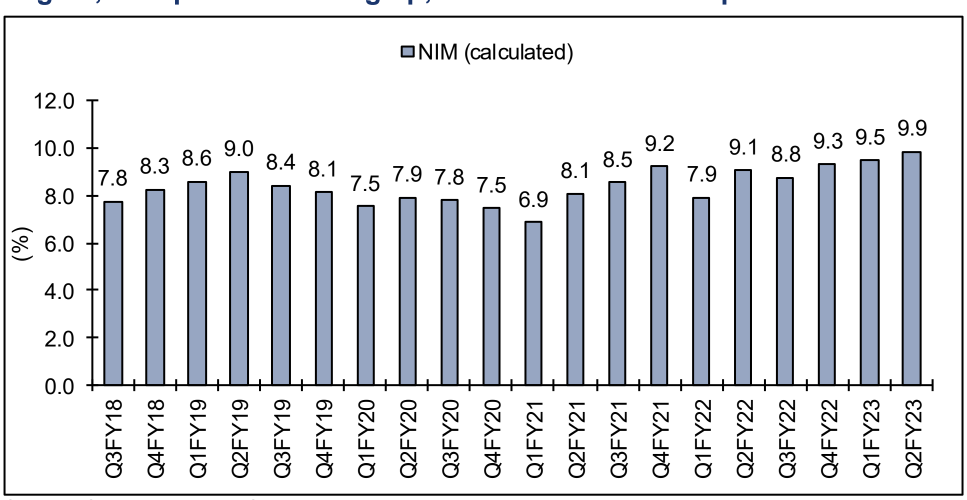
Source: Company data, I-Sec research

Chart 2: Endeavour is to contain gross stage-3 below 2% and credit cost at <1%



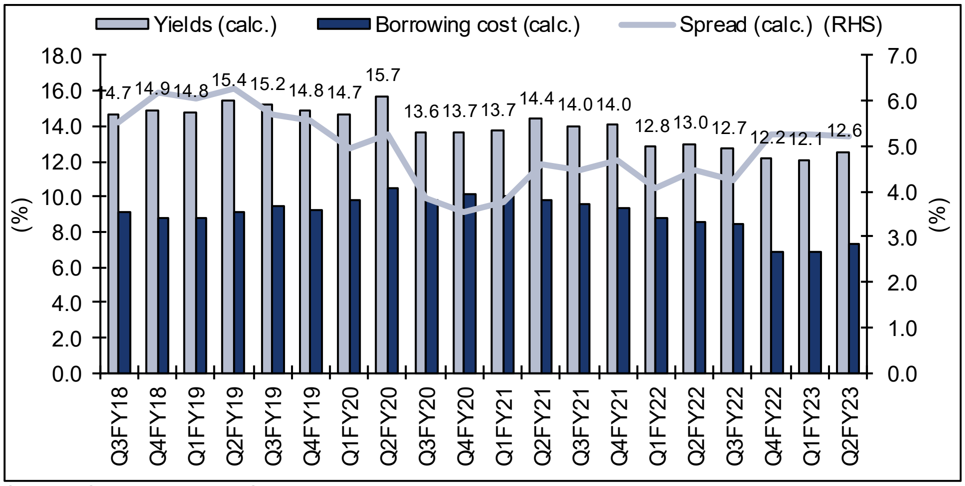
Source: Company data, I-Sec research

Chart 3: Focused AUM growth of 11% QoQ; accelerating customer acquisition engine; new product scaling up; focus on cross-sell/up-sell



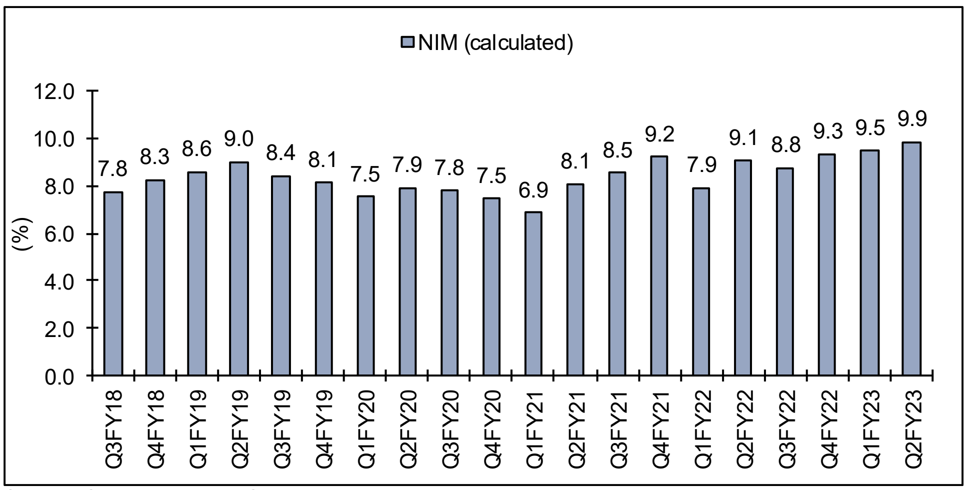
Source: Company data, I-Sec research

Chart 4: Funding cost in rising interest rate environment inched up 20bps QoQ to 7.12%



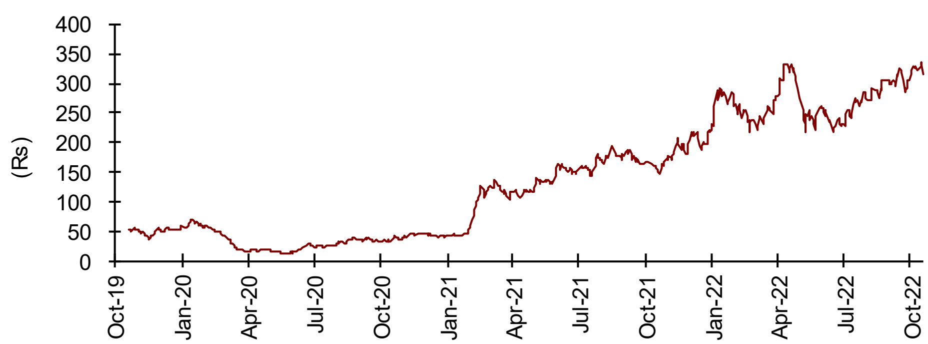
Source: Company data, I-Sec research

Chart 5: NIMs sustain at higher levels



Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financials

Table 5: Profit and loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22	FY23E	FY24E
Interest earned	24,164	21,657	19,105	23,588	32,676
Interest expended	12,938	11,005	7,162	8,817	13,620
Net interest income	**11,226**	**10,652**	**11,943**	**14,771**	**19,056**
Other income	**1,623**	**1,898**	**1,305**	**3,299**	**4,444**
Staff cost	*4,479*	*3,815*	*5,192*	*7,037*	*7,632*
Depreciation	*752*	*563*	*546*	*613*	*678*
Other operating expenses	*1,773*	*1,235*	*1,779*	*2,880*	*3,462*
Total operating cost	**7,005**	**5,613**	**7,517**	**10,531**	**11,772**
Pre-provisioning op profit	**5,844**	**6,937**	**5,732**	**7,540**	**11,728**
Provisions & contingencies	5,016	14,480	830	(559)	1,468
Share of profit of associates	(10)	55	15	-	-
Profit before tax	**818**	**(7,488)**	**4,917**	**8,099**	**10,260**
Income taxes	547	(1,898)	1,163	1,995	2,585
Minority	-	-	3	5	-
PAT	**271**	**(5,590)**	**3,751**	**6,098**	**7,674**

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

Particulars	FY20	FY21	FY22	FY23E	FY24E
Capital	539	539	1,530	1,530	1,530
Reserves & surplus	26,941	21,404	59,050	65,325	72,693
Preference Capital	-				
Net worth	**27,480**	**21,943**	**60,580**	**66,855**	**74,224**
Minority Interest	-	-	3	8	8
Total borrowings	**1,19,870**	**1,04,331**	**99,087**	**1,43,086**	**2,05,659**
Other Liabilities & Provisions	5,050	5,848	4,760	6,046	8,316
Total liabilities & stockholders' equity	**1,52,400**	**1,32,122**	**1,64,430**	**2,15,997**	**2,88,206**
Loans & advances	**1,35,550**	**1,13,610**	**1,48,510**	**1,92,265**	**2,64,430**
Cash and Balance	7,080	7,750	5,970	5,264	5,698
Fixed Assets	1,930	1771	0	0	0
Current & other assets	7,840	8991	9950	18467	18078
Total Assets	**1,52,400**	**1,32,122**	**1,64,430**	**2,15,997**	**2,88,206**

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

Particulars	FY20	FY21	FY22	FY23E	FY24E
Growth (%):					
AUM	(5.3)	(11.8)	16.5	28.5	35.4
Disbursements	(27)	(43)	158	66	35
Loan book (on balance sheet)	1,35,550	1,13,610	1,48,510	1,92,265	2,64,430
Net Interest Income (NII)	(15.8)	(5.1)	12.1	23.7	29.0
Non-interest income	175.8	17.0	(31.2)	152.7	34.7
Pre provisioning operating profits (PPoP)	(17.4)	18.7	(17.4)	31.5	55.5
PAT	NM	NM	NM	62.6	25.8
EPS	NM	NM	NM	62.6	25.8
Yields, interest costs and spreads (%)					
NIM on AUM	6.8	7.0	7.8	7.8	7.6
Yield on loan assets (on -book)	14.6	14.3	12.4	12.5	13.0
Average cost of funds	10.2	9.8	7.0	7.3	7.8
Interest Spread on loan assets (on -book)	4.4	4.5	5.4	5.2	5.2
Operating efficiencies					
Non-interest income as % of net income	12.6	15.1	9.9	18.3	18.9
Cost to income ratio (%)	54.5	44.7	56.7	58.3	50.1
Op.costs/avg AUM (%)	4.2	3.7	4.9	5.6	4.7
No. of employees (including off rolls)	10,467	11,110	11,791	11,968	12,327
Average annual salary (Rs mn)	0.4	0.3	0.4	0.6	0.6
Annual inflation in average salary(%)	(2.9)	(19.7)	28.2	33.5	5.3
Salaries as % of non-int. costs (%)	63.9	68.0	69.1	66.8	64.8
NII /employee (Rs mn)	1.1	1.0	1.0	1.2	1.5
AUM/employee(Rs mn)	15.4	12.8	14.1	17.8	23.4
Capital Structure					
Debt-Equity ratio	4.4	4.8	1.6	2.1	2.8
Leverage (x)	5.5	6.0	2.7	3.2	3.9
CAR (%)	25.9	23.4	23.1	21.8	20.8
Tier 1 CAR (%)	23.0	20.7	20.6	19.3	18.3
Tier 2 CAR (%)	2.9	2.7	2.5	2.5	2.5
Asset quality and provisioning					
GNPA (% of AUM)	6.4	3.7	2.7	1.4	1.4
NNPA (% of AUM)	4.1	1.2	1.1	0.6	0.6
GNPA (Rs mn)	9,140	4,650	4,130	2,658	3,639
NNPA (Rs mn)	5,800	1,460	1,700	1,223	1,566
Coverage ratio (%)	36.5	68.6	58.8	54.0	57.0
Credit costs as % of average AUM (bps)	303	954	54	(30)	59
Return ratios & capital management					
RoAA (%)	0.2	(3.9)	2.5	3.2	3.0
RoAE (%)	1.0	(22.6)	9.1	9.6	10.9
Payout ratio (%)	-	-	-	5.0	4.0
Valuation Ratios					
EPS (Rs)	1.0	(20.7)	4.9	8.0	10.0
Price to Earnings	314.6	(15.2)	64.4	39.6	31.5
BVPS (Rs)	101.8	81.2	79.1	87.3	96.9
Price to Book	3.10	3.89	3.99	3.62	3.26
Dividend yield (%)	-	-	-	0.1	0.1

Source: Company data, I-Sec research

Table 8: Du-pont analysis

Particulars	FY20	FY21	FY22	FY23E	FY24E
Interest earned	14.6	14.3	12.4	12.5	13.0
Interest expended	7.8	7.2	4.6	4.7	5.4
Gross Interest Spread	**6.8**	**7.0**	**7.8**	**7.8**	**7.6**
Credit cost	3.0	9.5	0.5	(0.3)	0.6
Net Interest Spread	**3.7**	**(2.5)**	**7.2**	**8.1**	**7.0**
Operating cost	4.2	3.7	4.9	5.6	4.7
Lending spread	**(0.5)**	**(6.2)**	**2.3**	**2.5**	**2.3**
Non-interest income	1.0	1.3	0.8	1.7	1.8
Minority	-	-	0.0	0.0	-
Final spread	**0.5**	**(5.0)**	**3.2**	**4.3**	**4.1**
Tax rate (%)	*66.9*	*25.3*	*23.6*	*24.6*	*25.2*
ROAAUM	**0.2**	**(3.7)**	**2.4**	**3.2**	**3.1**
Effective leverage (AAUM/ AE)	6.0	6.1	3.7	3.0	3.6
RoAE	**1.0**	**(22.8)**	**9.1**	**9.6**	**10.9**

Source: Company data, I-Sec research

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